

## Memorandum

To: Gary Jackson, City Manager

From: Robert Griffin, Interim Water Resources Director

Date: March 11, 2009

Subject: Justification for 4% Water Rate Increase

Water Resources is requesting a 4% rate increase and a 4% increase in the CIP fee effective July 1, 2009. Engineering Firm Brown and Caldwell conducted a rate study in 2005 recommending a yearly rate increase to generate sufficient revenues to meet the escalating costs of operating and maintaining the water system. The proposed 4% rate increase is based on the following justification:

1. Consumer Price Index (CPI) Increase;
2. Escalating Cost Summary;
3. Principal and Interest Expenses for Water Resources Debt;
4. Proposed Rate Increases for Other NC Towns/Cities; and
5. Water Demand (or Consumption) Trends.

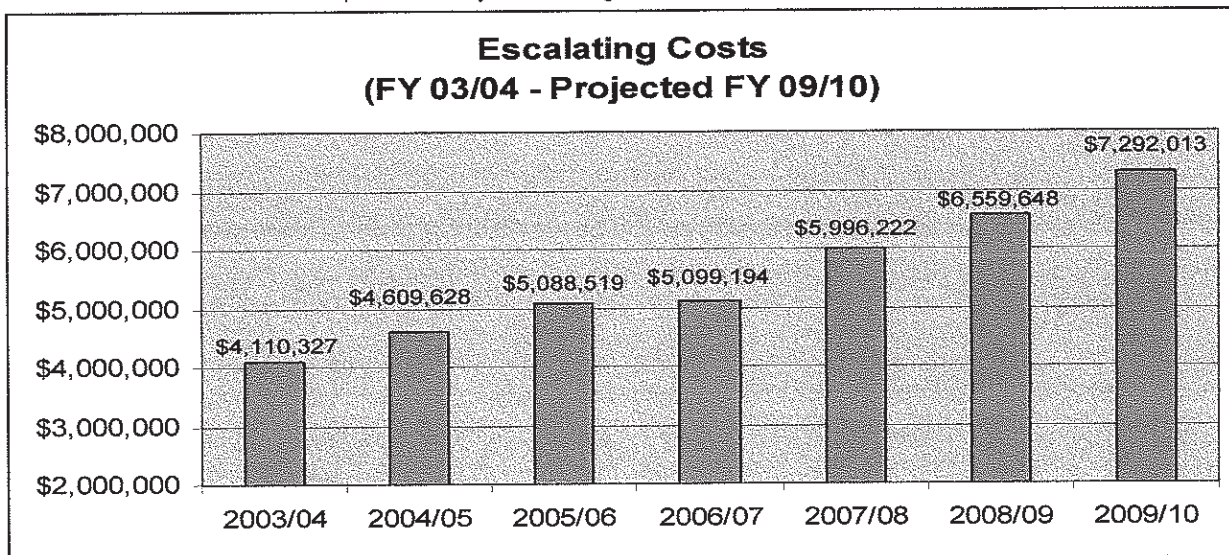
**1. Consumer Price Index (CPI) Increase:**

According to the U.S. Bureau of Labor Statistics, the average Consumer Price Index (CPI) for 2008 was 3.8%. The proposed 4% rate increases will help offset the CPI increase experienced last year. The last rate increase was in FY 2007/2008 and the next most recent increase was in FY 2001/2002.

**2. Escalating Cost Summary:**

As shows in Graph 1, the Water Resources Department has seen an average annual increase of 9% in Materials Costs (i.e. asphalt, concrete, waterlines, meters, and valves), Chemical and Electrical Costs for the Water Treatment Plants and Water Pumping Stations, Fuel/Maintenance Costs for Water Resources fleet, and Cost Allocation to the General Fund since FY 03/04. The increase from FY 08/09 to FY 09/10 is projected to be a total of 10% in the aforementioned areas. Water Resources has very little, if any, control over these costs and is required to budget for these in order to provide high quality drinking water to customers. An example for next year is electricity for just the water treatment plants is budgeted as a \$66,762 annual increase.

Graph 1: Summary of Escalating Costs for FY 03/04 to Projected FY 09/10.



### 3. Principal and Interest Expenses for Water Resources Debt:

Since issuance of the 2007 Revenue Bonds, Water Resources debt service increased from approximately \$6.1 million to \$7.6 million, mostly in the areas of Principal and Interest. In order to offset this approximate 19.7% increase in debt service, Water Resources has made budget cuts in various Operational line items (i.e. travel, training, supplies, safety equipment, etc.), Vehicle and Equipment Purchases, and Capital Improvement Projects. The budget for Capital Improvement Projects (CIP) has been reduced from this fiscal year's \$9,104,174 (includes \$3.5 Million for DOT projects) to \$3,644,296 to help offset the dramatic increase in debt service as well as the dramatic increases in Materials, Chemicals, Electricity, Fuel/Fleet Maintenance, and Cost Allocation to the General Fund. Debt Service Expenses are expected to be high for several years until the debt can be refinanced or eventually paid off. The Capital Improvement Projects that receive priority are NCDOT required projects and projects required to comply with state and federal laws, like the William DeBruhl Water Treatment Plant Backwash Lagoon. Unfortunately, projects that enhance water service for customers, improve fire projection, and help stabilize water pressure to reduce leaks have to be pushed out to later years in hopes that more funding will be available.

### 4. Proposed Rate Increase Comparison for Other NC Towns/Cities:

Water Resources staff contacted the Metropolitan Sewerage District (MSD) of Buncombe County and 14 other NC towns/cities to find out their proposed rate increase. MSD is proposing a rate increase of 3% with the option to go as high as 4% if approved by their board. Ten of the other 14 NC towns/cities responded with their proposed rate increases, which range from 0% to 15% with an average of 7.26%. Asheville is requesting a 4% rate, which is well below the average. Because of the Sullivan Acts, Asheville is not allowed to charge different rates for inside vs. outside customers. Other towns/cities are allowed to charge different rates as indicated in Chart 1 and Graph 1 below. The typical Asheville water customer uses 5 CCF, 3,740 gallons, per month. Asheville water customers are billed bi-monthly, but for comparison to other NC towns/cities the chart and graph show the breakdown on a monthly basis.

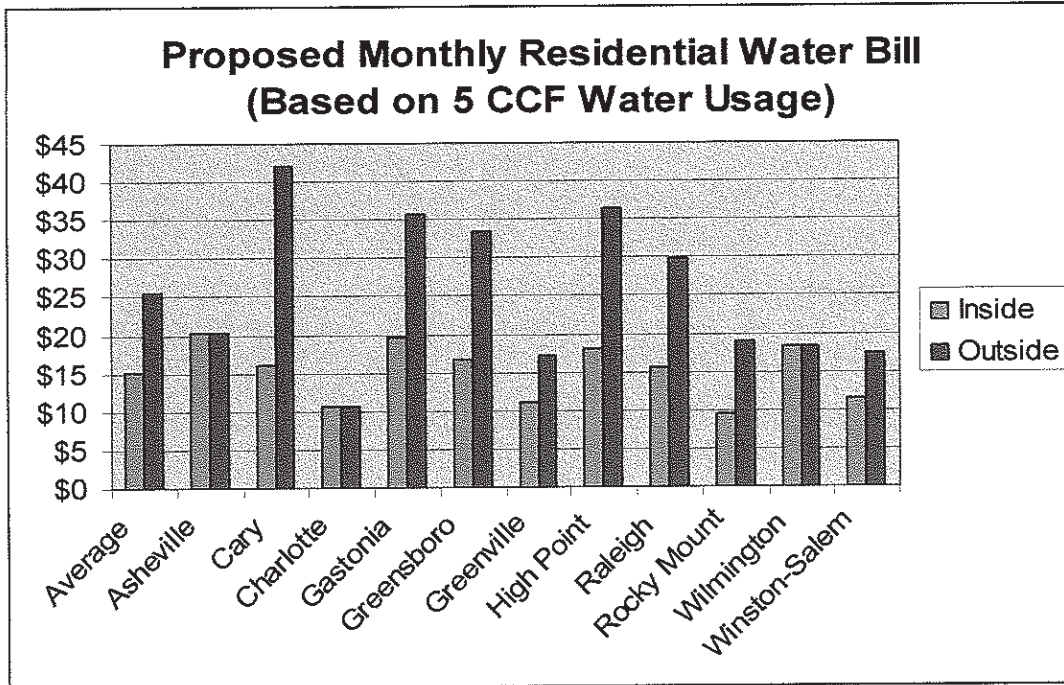
Chart 1: Current vs. Proposed Monthly Residential Water Bill Comparison for MSD + 11 NC Cities/Towns.

City/Town	Proposed Rate Increase	CURRENT		PROPOSED	
		Monthly Residential Water Bill (Based on 5 CCF Water Usage)		Monthly Residential Water Bill (Based on 5 CCF Water Usage)	
		Inside	Outside	Inside	Outside
Average	7.26%	14.56	24.88	15.24	25.48
Asheville	4%	19.67	19.67	20.36	20.36
Cary	6%	15.32	46.01	16.06	42.08
Charlotte	14%	9.60	9.60	10.69	10.69
Gastonia	0%	19.71	35.83	19.71	35.83
Greensboro	4%	16.25	32.50	16.71	33.42
Greenville	0%	11.05	17.15	11.05	17.15
High Point	5%	17.59	35.23	18.13	36.31
Raleigh	15%	14.17	26.92	15.64	29.85
Rocky Mount	12%	8.45	16.95	9.46	18.98
Wilmington	9%	17.35	17.35	18.23	18.23
Winston-Salem	11%	10.98	16.49	11.58	17.39
MSD	3%	Wastewater, % Shown for Reference Only			

\*It is not known at this time if Greenville or Rocky Mount charge a Base Fee, so that is not included in the proposed calculation.



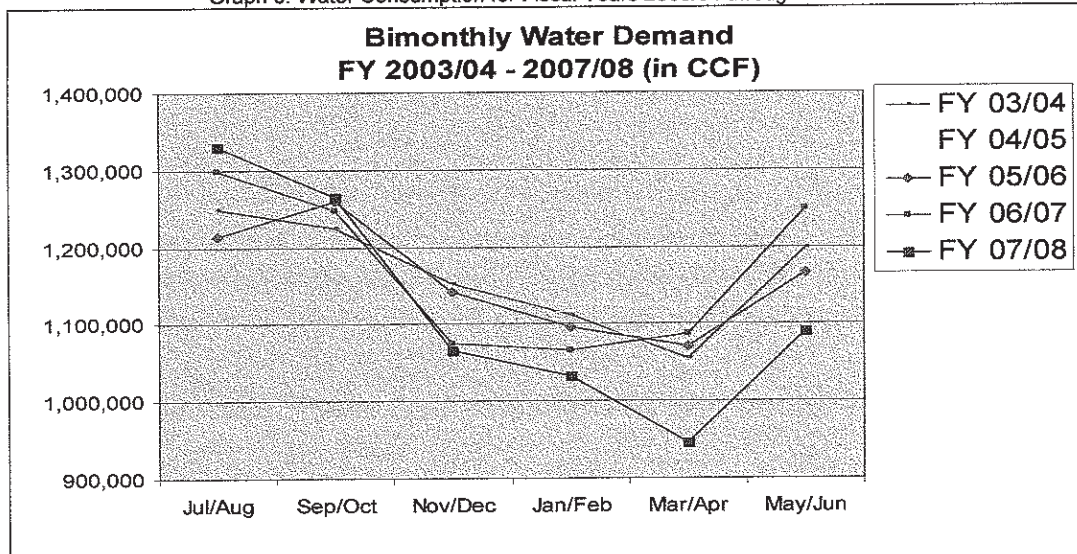
Graph 2: Proposed Monthly Residential Water Bill Comparison for 11 NC Cities/Towns.



#### 5. Water Demand (or Consumption) Trends:

The Water Resources Department is currently updating the Water System Master Plan. Once complete, this plan should project future water supply needs and measures needed to accommodate growing demand. Consumption is reported on a bi-monthly basis and shown in Graph 3. Historical data is provided for Fiscal Years 2003/04 through 2007/08. Demand has followed the same trend except in times of drought where we requested water conservation measures. In October 2007, our water users were asked to voluntarily conserve water resulting in a significant drop in water consumption as compared to previous years. This is in addition to the loss of several high use commercial accounts. Water demand is following the same conservative trend this fiscal year as it did in FY 07/08. A 4% rate increase will help to offset the reduced revenues from the drop in water demand.

Graph 3: Water Consumption for Fiscal Years 2003/04 through 2007/08.



Summary:

Water Resources is sensitive to concerns about how a 4% rate increase may seem difficult to justify in today's economic condition. However, the proposed increases (rate and CIP) translate to an additional \$0.83 per month, or \$9.96 annually, for the average residential water customer. Water utilities across the state are planning on an average rate increase of 7.26%. Be assured that any approved rate increase will be used in the most financially way possible to continue to provide the highest possible water quality and service to all customers.